

**NICE COMMUNITY SCHOOL DISTRICT
ISHPEMING, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2005**

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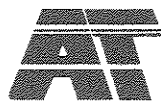
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INDEPENDENT AUDITORS' REPORT

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities of each major fund, and the aggregate remaining fund information of the NICE Community School District, Ishpeming, Michigan, as of and for the year ended June 30, 2005 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component unit. Another auditor whose report has been furnished to us audited those financial statements, and our opinion, insofar as it related to the amounts included for the component unit, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and aggregate remaining fund information of the NICE Community School District, Ishpeming, Michigan as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 48.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 33 are not a required part of the basic financial statements but is supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Other Supplemental Information and Compliance Sections

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the NICE Community School District. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 14, 2005

NICE Community School District

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of NICE Community School District financial performance provides an overview of the School District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- Net assets for NICE Community School District as a whole were reported at \$1,455,849. Net assets are comprised of 100% governmental activities.
- During the year, NICE Community School District expenses were \$11,039,413, while revenues from all sources totaled \$11,717,547, resulting in an increase in net assets of \$678,134.
- The general fund reported an increase of \$552,711 before other financing sources (uses) and a total increase of \$9,996. This is \$56,855 higher than the forecasted decrease of \$(46,859). This was a result of revenues being \$20,252 higher than forecasted and expenses and transfers out being \$36,603 lower than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand NICE Community School District financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 11 and 12) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the NICE Community School District as a whole begins on page 7. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The School District's net assets - the difference between assets and liabilities - is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities - are indicators of

Management's Discussion and Analysis (Unaudited) (Continued)

whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 9. The fund financial statements begin on page 13 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds - *governmental* and *proprietary* – use the following accounting methods.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.
- *Proprietary funds* –The School District does not have any Proprietary funds.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Management's Discussion and Analysis (Unaudited) (Continued)**The School District as a Whole**

Table 1 provides a summary of the School District's net assets as of June 30, 2005:

Table 1
Net Assets

	Governmental Activities-2005	Governmental Activities-2004
Current and other assets	\$4,349,650	\$4,063,790
Capital assets, net	8,720,106	8,777,598
Total Assets	13,069,756	12,841,388
Current liabilities	3,583,698	3,455,229
Long-term liabilities	8,030,209	8,608,444
Total Liabilities	11,613,907	12,063,673
Net Assets:		
Invested in capital assets, net of related debt	525,376	6,420
Restricted	404,030	383,994
Unrestricted	526,443	387,301
Total Net Assets	\$1,455,849	\$777,715

The School District's net assets were \$1,455,849 at June 30, 2005. Capital assets, net of related debt totaling \$525,376, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$526,443 was unrestricted.

The \$526,443 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2).

Table 2
Changes in Net Assets

	Governmental Activities – 2005	Governmental Activities - 2004
Revenues:		
Program revenues:		
Charges for services	\$388,678	\$371,818
Operating grants and contributions	1,375,233	1,513,446
General revenues:		
Property taxes	2,349,327	1,976,264
State sources not restricted to specific program	7,463,235	7,514,921
Contributions and other unrestricted grants	13,000	14,500

Management's Discussion and Analysis (Unaudited) (Continued)

	Governmental Activities – 2005	Governmental Activities - 2004
Investment earnings	\$41,713	\$21,643
Miscellaneous	86,361	63,717
Extraordinary item	-	150,000
Total Revenues	<u>11,717,547</u>	<u>11,626,309</u>
Program Expenses:		
Instruction	6,727,168	6,752,481
Supporting services	3,104,807	3,365,977
Community services	1,574	200
Food service activities	292,188	272,664
Athletic activities	224,332	237,175
Depreciation – unallocated	353,322	377,405
Interest on long-term debt	336,022	352,539
Total Expenses	<u>11,039,413</u>	<u>11,358,441</u>
Increase (decrease) in net assets	678,134	267,868
Net assets, beginning	<u>777,715</u>	<u>509,847</u>
Net Assets, Ending	<u>\$1,455,849</u>	<u>\$ 777,715</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$11,039,413. Certain activities were partially funded from those who benefited from the programs \$388,678 or by other governments and organizations that subsidized certain programs with grants and categoricals \$1,375,233. We paid for the remaining "public benefit" portion of our governmental activities with \$2,349,327 in taxes, \$7,463,235 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets for the year of \$678,134.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$6,727,168	\$5,483,977
Supporting services	3,104,807	2,957,750
Food service activities	292,188	1,275
Athletic activities	224,332	141,582
Totals	<u>\$10,348,495</u>	<u>\$8,584,584</u>

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$1,487,928, an increase of \$201,913 from the beginning of the year.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the School District had \$8,720,106 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	Governmental Activities – 2005	Governmental Activities – 2004
Land	\$41,000	\$ 41,000
Land improvements	508,998	508,998
Buildings	12,438,255	12,271,400
Machinery and equipment	680,627	568,937
Vehicles	1,179,256	1,161,971
	14,848,136	14,552,306
Less accumulated depreciation	(6,128,030)	(5,774,708)
Totals	\$8,720,106	\$ 8,777,598

This year's additions of \$295,830 included computers with capital lease issued to finance purchase and various building improvements financed through sinking fund millage. We present more detailed information about our capital assets in the notes to the financial statements.

Management's Discussion and Analysis (Unaudited) (Continued)

Debt

At the end of this year, the School District had \$8,350,582 in bonds and installment loans outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	Governmental Activities - 2005	Governmental Activities - 2004
General obligation bonds	\$7,875,000	\$8,435,000
Installment loans	319,730	336,178
Durant debt	155,852	155,852
Totals	<u>\$8,350,582</u>	<u>\$8,927,030</u>

There was one new installment loan issued this year. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2006 budget.

Enrollments are projected, as well as contract cost for two years. There are currently no major economic factors in our area that would dramatically affect our district in revenues or expenditures.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the NICE Community School District, 300 Westwood Drive, Ishpeming, Michigan, 49849.

NICE Community School District
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>	<u>Component Unit</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 984,498	\$ 20,453
Investments	1,515,388	135,855
Accounts receivable	1,834,552	134,967
Prepaid expenses	15,212	300
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	4,349,650	291,575
	<hr/>	<hr/>
Noncurrent assets:		
Land	41,000	-
Other capital assets	14,807,136	73,622
Less accumulated depreciation	(6,128,030)	(39,662)
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	8,720,106	33,960
	<hr/>	<hr/>
TOTAL ASSETS	13,069,756	325,535
	<hr/>	<hr/>
LIABILITIES:		
Current liabilities:		
Accounts payable	388,214	24,834
Accrued liabilities	649,174	2,779
Accrued interest	46,106	-
Deferred revenue	24,334	-
State anticipation note	1,800,000	-
Current portion of long-term debt obligations	675,870	-
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	3,583,698	27,613
	<hr/>	<hr/>
Noncurrent liabilities:		
Compensated absences	167,997	-
Early retirement	187,500	-
Bonds payable	8,030,852	-
Installment loans payable	319,730	-
Current portion of long-term debt obligations	(675,870)	-
	<hr/>	<hr/>
TOTAL NONCURRENT LIABILITIES	8,030,209	-
	<hr/>	<hr/>
TOTAL LIABILITIES	11,613,907	27,613
	<hr/>	<hr/>
NET ASSETS:		
Invested in capital assets net of related debt	525,376	33,959
Restricted:		
Debt Service	356,957	-
Scholarships endowments	47,073	-
Unrestricted	526,443	263,963
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TOTAL NET ASSETS	\$ 1,455,849	\$ 297,922
	<hr/>	<hr/>

See Notes to Financial Statements.

**NICE Community School District
Statement of Activities
For the Year Ended June 30, 2005**

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Component Unit
Governmental Activities:					
Instruction	\$ 6,727,168	\$ 160,986	\$ 1,082,205	\$ (5,483,977)	
Supporting services	3,104,807	1,590	145,467	(2,957,750)	
Community services	1,574	-	-	(1,574)	
Food service activities	292,188	148,456	142,457	(1,275)	
Athletic activities	224,332	77,646	5,104	(141,582)	
Interest on retirement of debt	336,022	-	-	(336,022)	
Depreciation- unallocated	353,322	-	-	(353,322)	
TOTAL GOVERNMENTAL ACTIVITIES	11,039,413	388,678	1,375,233	(9,275,502)	
Component Unit:					
Instruction and instructional support	\$ 393,625	78,834	299,067		\$ (15,724)
General revenues:					
Taxes					
Property taxes, levied for general purposes				1,147,323	-
Property taxes, levied for debt services and sinking fund				1,202,004	-
State Aid not restricted to specific purposes				7,463,235	-
Contributions and other unrestricted grants				13,000	26,622
Interest and investment earnings				41,713	6,248
Miscellaneous				86,361	3,404
TOTAL GENERAL REVENUES				9,953,636	36,274
CHANGES IN NET ASSETS				678,134	20,550
Net Assets, July 1				777,715	277,372
NET ASSETS, JUNE 30				\$ 1,455,849	\$ 297,922

See Notes to Financial Statements.

**NICE Community School District
Governmental Funds
Balance Sheet
June 30, 2005**

	General Fund	Other Nonmajor Governmental Funds	Total
ASSETS:			
Cash and cash equivalents	\$ 482,847	\$ 501,651	\$ 984,498
Investments	1,314,492	200,896	1,515,388
Accounts receivable	1,828,390	-	1,828,390
Due from other funds	6,852	6,162	13,014
Prepaid expenditures	15,212	-	15,212
TOTAL ASSETS	\$ 3,647,793	\$ 708,709	\$ 4,356,502
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 287,971	\$ 100,243	\$ 388,214
Accrued liabilities	649,174	-	649,174
Due to other funds	-	6,852	6,852
State aid notes payable	1,800,000	-	1,800,000
Deferred revenue	24,334	-	24,334
TOTAL LIABILITIES	2,761,479	107,095	2,868,574
FUND BALANCES:			
Reserved for:			
Retirement of debt	-	356,957	356,957
Scholarships and endowments	-	47,073	47,073
Capital projects	-	172,801	172,801
Unreserved	886,314	24,783	911,097
TOTAL FUND BALANCES	886,314	601,614	1,487,928
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,647,793	\$ 708,709	\$ 4,356,502

See Notes to Financial Statements.

**NICE Community School District
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005**

Total Fund Balances for Governmental Funds	\$	1,487,928
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

	Cost of capital assets	14,848,136
	Accumulated depreciation	<u>(6,128,030)</u>
		8,720,106

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Compensated absences	167,997	
Early retirement	187,500	
Bonds payable	8,030,852	
Installment loans	319,730	
Accrued interest	<u>46,106</u>	
		(8,752,185)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>1,455,849</u>
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See Notes to Financial Statements.

**NICE Community School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005**

	General Fund	Other Nonmajor Governmental Funds	Total
REVENUES:			
Property taxes	\$ 1,120,440	\$ 1,202,004	\$ 2,322,444
Other local sources	115,453	270,456	385,909
State sources	8,382,581	15,312	8,397,893
Federal sources	308,326	127,145	435,471
Other sources	160,986	5,104	166,090
TOTAL REVENUES	10,087,786	1,620,021	11,707,807
EXPENDITURES:			
Current:			
Instruction	6,187,249	-	6,187,249
Supporting services	3,104,807	516,520	3,621,327
Community services	-	1,200	1,200
Debt Service:			
Principal	59,496	587,372	646,868
Interest and fees	45,390	294,607	339,997
Capital outlay	138,132	169,612	307,744
Other	-	374	374
TOTAL EXPENDITURES	9,535,074	1,569,685	11,104,759
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	552,712	50,336	603,048
OTHER FINANCING SOURCES (USES):			
Proceeds from borrowing	-	-	-
Insurance recoveries	9,740	-	9,740
Transfers from other funds	-	141,582	141,582
Transfers to local districts	(410,874)	-	(410,874)
Transfers to other funds	(141,582)	-	(141,582)
TOTAL OTHER FINANCING SOURCES (USES)	(542,716)	141,582	(401,134)
NET CHANGE IN FUND BALANCES	9,996	191,918	201,914
Fund Balance, July 1	876,318	409,696	1,286,014
FUND BALANCE, JUNE 30	\$ 886,314	\$ 601,614	\$ 1,487,928

See Notes to Financial Statements.

**NICE Community School District
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds **\$ 201,914**

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	353,322	
Capital outlays	<u>(295,830)</u>	(57,492)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (70,420)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 646,868

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (46,711)

Interest on long-term debt is recorded as an expenditure in the funds when it due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the net amount of accrued interest recognized in the statement of activities. 3,975

Change in Net Assets of Governmental Activities	\$	<u>678,134</u>
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See Notes to Financial Statements.

**NICE Community School District
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005**

	Agency Fund
	<u> </u>
ASSETS:	
Cash and equivalents	\$ <u>74,776</u>
TOTAL ASSETS	<u><u>\$ 74,776</u></u>
 LIABILITIES:	
Due to groups, organizations and activities	\$ <u>74,776</u>
TOTAL LIABILITIES	<u><u>\$ 74,776</u></u>

See Notes to Financial Statements.

NICE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the NICE Community School District conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Reporting Entity

The District is a local school district as defined by Michigan law that operates under a locally elected seven member Board form of government, and that provides elementary and secondary education and related support services to the residents of National Mine, Ishpeming, Champion, Ely, Tilden, and Humboldt Townships in Marquette County and Spurr Township in Baraga County.

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, it has been determined that the Community Education Division of the Ishpeming, Negaunee, and NICE Community School Districts is a discretely presented component unit of NICE Community School District due to its financial interdependency. No other entity meets the criteria to be considered a component unit of the District nor is the District a component unit of another entity. The audited financial statements of the Community Education Division can be obtained from its administrative offices at 101 S. Pioneer Avenue, Negaunee, Michigan.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Service, Scholarship and Athletics Funds.

Debt Service Funds – The Debt Service Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds – The Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Agency Fund – The Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District considers cash and cash equivalents to be cash on hand, demand deposits and certificates of deposit.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

State Anticipation Note

The District issued notes through the Michigan Municipal Bond Authority for cash flow purposes. The District has pledged a portion of their state aid to repay the principal and interest on the notes. Furthermore, the District has irrevocably pledged its full faith and credit in case of the insufficiency of the pledged state aid.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District’s policy to use the restricted resources first.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property Taxes

Property taxes are levied on December 1, on behalf of the District by various taxing units and are payable without penalty by February 14. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The District follows the budgetary process prescribed by provisions of the State of Michigan Uniform Budgeting and Accounting Act, and entails the preparation of budgetary documents within an established timetable. All funds are legally required to be budgeted and appropriated with the exception of fiduciary funds. The legal level of budgetary control has been established at the functional level with modifications made only by a resolution of the Board. At the close of each year, budget appropriations lapse.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2005, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$984,498	\$74,776	\$1,059,274
Investments	1,515,388	-	1,515,388
	<u>\$2,499,886</u>	<u>\$74,776</u>	<u>\$2,574,662</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$1,187,416 of the District's bank balance of \$1,387,416 was exposed to custodial credit risk as being uninsured and uncollateralized.

Investments

As of June 30, 2005, the District had the following investments.

Investment Type	Fair Value	Investment Maturities Less than 1 year
Michigan Liquid Asset Fund – Mutual Funds	\$1,474,946	\$1,474,946
Mutual Funds	40,442	40,442
	<u>\$1,515,388</u>	<u>\$1,515,388</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The District's investments are in accordance with statutory authority.

NOTE C – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved.

The amounts of interfund receivables and payables as of June 30, 2005 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$6,852	Hot Lunch	\$503
Athletics	6,162	Athletics	6,349
		Agency	6,162
Total	<u>\$13,014</u>	Total	<u>\$13,014</u>

The amounts transferred to and from individual funds for the year ended June 30, 2005 are as follows:

Fund	Transfers In	Fund	Transfers Out
Athletics	<u>\$141,582</u>	General	<u>\$141,582</u>

NOTE D – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$41,000	\$-	\$-	\$41,000
Capital assets being depreciated:				
Land improvements	508,998	-	-	508,998
Buildings and additions	12,271,400	166,855	-	12,438,255
Machinery and equipment	568,937	111,690	-	680,627
Vehicles	1,161,971	17,285	-	1,179,256
Total Capital Assets	<u>14,552,306</u>	<u>295,830</u>	<u>-</u>	<u>14,848,136</u>
Less accumulated depreciation:				
Land improvements	444,672	19,565	-	464,237
Buildings and additions	4,022,394	253,428	-	4,275,822
Machinery and equipment	366,402	17,605	-	384,007
Vehicles	941,240	62,724	-	1,003,964
Total Accumulated Depreciation	<u>5,774,708</u>	<u>353,322</u>	<u>-</u>	<u>6,128,030</u>
CAPITAL ASSETS, NET	<u>\$8,777,598</u>	<u>\$(57,492)</u>	<u>\$-</u>	<u>\$8,720,106</u>

Depreciation expense charged to governmental activities was \$353,322.

NOTE E – SHORT-TERM DEBT:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2005 is as follows:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Short-term debt:				
State anticipation note, 2004-2005	\$-	\$1,800,000	\$-	\$1,800,000
State anticipation note, 2003-2004	1,800,000	-	1,800,000	-
TOTAL	<u>\$1,800,000</u>	<u>\$1,800,000</u>	<u>\$1,800,000</u>	<u>\$1,800,000</u>

NOTE F – ACCRUED EMPLOYEE BENEFITS:

The School District offers an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days paid at a rate based upon the appropriate union contract. The sick leave liability has been calculated in accordance with GASB #16.

As of June 30, 2005, accrued employee benefits reported in the Statement of Net Assets consist of the following:

Early Retirement	\$187,500
Sick Leave	167,997
TOTAL	<u>\$355,497</u>

NOTE G – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2005:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
School Building & Site Bonds, Series 1995	\$345,000	\$-	\$345,000	\$-
2003 Refunding Bonds	8,090,000	-	215,000	7,875,000
School Improvement Bonds, Series 1998	155,852	-	-	155,852
Installment Loans payable	336,178	70,420	86,868	319,730
Compensated absences	198,786	-	30,789	167,997
Early retirement	110,000	175,000	97,500	187,500
TOTAL	<u>\$9,235,816</u>	<u>\$245,420</u>	<u>\$775,157</u>	<u>\$8,706,079</u>

Long-term debt at June 30, 2005 consists of the following:

The District issued \$8,200,000 in general obligation bonds for the purpose of an advance refunding of the 1995 School Building & Site Bonds that were used for the construction of Aspen Ridge School. Portions of the refunding bonds, with interest rates that range from 2.00% to 4.05%, are redeemed annually beginning on May 1, 2003. Semiannual interest payments are paid on November 1 and May 1 of each year on the outstanding amount of the bonds. The remaining bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2014 are subject to redemption at the option of the District. A schedule of the District's remaining bond repayment requirements are as follows:

2003 Refunding Bonds June 30, 2005

	November 1	May 1		
	Interest	Interest	Principal	Total
2005-2006	\$132,182	\$132,182	\$580,000	\$844,364
2006-2007	125,657	125,657	595,000	846,314
2007-2008	118,219	118,219	585,000	821,438
2008-2009	109,444	109,444	575,000	793,888
2009-2010	100,819	100,819	565,000	766,638
2011-2015	359,523	359,523	2,835,000	3,554,046
2016-2020	105,072	105,072	2,140,000	2,350,144
	<u>\$1,050,916</u>	<u>\$1,050,916</u>	<u>\$7,875,000</u>	<u>\$9,976,832</u>

NOTE G – LONG-TERM DEBT (Continued):**School Improvement Bonds
Series 1998
June 30, 2005**

	May 1		Total
	Interest	Principal	
2005-2006	\$5,323	\$11,808	\$17,131
2006-2007	4,761	12,367	17,128
2007-2008	4,172	12,959	17,131
2008-2009	3,555	13,577	17,132
2009-2010	2,908	14,222	17,130
2011-2015	24,182	90,919	115,101
	<u>\$44,901</u>	<u>\$155,852</u>	<u>\$200,753</u>

The School Improvement Bonds, Series 1998 (\$487,900) dated November 24, 1998 mature annually on May 15, 2005 with interest at a rate of 4.75% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an appropriation from the State of Michigan.

INSTALLMENT LOANS

The District entered into an installment purchase agreement to refinance the construction of a bus garage. The loan agreement dated November 20, 2001 at an original amount of \$268,694 bears a variable interest rate of 2.00% below prime. The loan, which is secured by a bus garage, bears an interest rate of 3.25% as of June 30, 2005, and is payable in annual installments of \$34,398, with the unpaid principal and related interest due on November 2, 2011. The outstanding balance at June 30, 2005 is \$188,806.

The District entered into an installment purchase agreement to finance the purchase of two buses. The loan agreement dated October 1, 2003 at an original amount of \$100,000, bears an interest rate of 3.65% and is payable in annual installments of \$25,000 including interest, maturing May 1, 2007. The outstanding balance at June 30, 2005 is \$50,000.

The District entered into an installment purchase agreement to finance the purchase of seventy personal computers and related equipment. The loan agreement, dated October 1, 2003 at an original amount of \$60,000, bears an interest rate of 3.65% and is payable in annual installments of \$15,000 including interest, maturing May 1, 2007. The outstanding balance at June 30, 2005 is \$30,000.

The District entered into an installment lease purchase agreement to finance the purchase of computer classroom equipment. The lease agreement dated March 31, 2005 at an original amount of \$70,420 bears an interest rate of 7.257% and is payable in annual installments of \$19,496 including interest, maturing March 31, 2008. The outstanding balance at June 30, 2005 is \$50,924.

NOTE G – LONG-TERM DEBT (Continued):

As of June 30, 2005 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

	Principal	Interest	Total
2005-2006	\$675,870	\$282,438	\$958,308
2006-2007	693,494	265,301	958,795
2007-2008	646,264	246,199	892,463
2008-2009	619,685	225,734	845,419
2009-2010	611,341	206,826	818,167
2011-2015	2,963,928	745,739	3,709,667
2016-2020	2,140,000	210,145	2,350,145
	<u>\$8,350,582</u>	<u>\$2,182,382</u>	<u>10,532,964</u>
Employer Benefits Payable			355,497
TOTALS			<u>\$10,888,461</u>

NOTE H – RESERVED FUND EQUITY:

The School District reserves fund equities for the following funds:

Debt Service Funds - The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

Scholarship Funds - The resources of the Scholarship Funds have been accumulated from private contributions for the specific purpose of granting scholarships to students of the District. The funds are reserved for these purposes.

NOTE I – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and October of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2004 - August 2005. The local revenue is recognized as outlined in Note A – Property Taxes.

NOTE J – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2005:

	<u>Excess Expenditures</u>
Special Revenue Funds:	
Food Service Activities	\$27,708
Athletic Activities	9,269

NOTE K – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 12.99% of covered compensation to the Plan through September 30, 2004 and 14.87% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$1,012,697 which consisted of \$855,934 from the District and \$156,763 from employees electing the MIP option. These represent approximately 14% and 3% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$5,934,000. The District's total payroll was approximately \$6,095,000.

NOTE K – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8173.

NOTE L – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE M – ECONOMIC DEPENDENCY:

The School District receives approximately 75 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of NICE Community School District.

NOTE N – SINKING FUNDS:

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE O – SINGLE AUDIT:

The District's audited financial statements report a total of \$457,584 in federal expenditures. As this amount is less than the single audit threshold of \$500,000, the District is therefore not required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2005.

REQUIRED SUPPLEMENTAL INFORMATION

**NICE Community School District
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Property taxes	\$ 1,180,000	\$ 1,180,000	\$ 1,120,440	\$ -	\$ (59,560)
Other local sources	114,752	97,808	115,453	(16,944)	17,645
State sources	8,320,000	8,340,073	8,382,581	20,073	42,508
Federal sources	280,000	296,653	308,326	16,653	11,673
Other sources	160,000	153,000	160,986	(7,000)	7,986
TOTAL REVENUES	10,054,752	10,067,534	10,087,786	12,782	20,252
EXPENDITURES:					
Current:					
Instruction	6,326,000	6,310,139	6,187,249	15,861	122,890
Supporting services	3,127,500	3,124,681	3,104,807	2,819	19,874
Debt service:					
Principal	-	-	59,496	-	(59,496)
Interest and fees	1,847,000	1,835,000	45,390	12,000	1,789,610
Capital outlay	180,000	179,313	138,132	687	41,181
TOTAL EXPENDITURES	11,480,500	11,449,133	9,535,074	31,367	1,914,059
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(1,425,748)	(1,381,599)	552,712	44,149	1,934,311
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	1,800,000	1,800,000	-	-	(1,800,000)
Insurance recoveries	9,740	9,740	9,740	-	-
Transfers from other funds	-	-	-	-	-
Transfer to local districts	(335,000)	(335,000)	(410,874)	-	(75,874)
Transfers to other funds	(140,000)	(140,000)	(141,582)	-	(1,582)
TOTAL OTHER FINANCING SOURCES (USES)	1,334,740	1,334,740	(542,716)	-	(1,877,456)
NET CHANGE IN FUND BALANCE	(91,008)	(46,859)	9,996	44,149	56,855
Fund balance, July 1	876,318	876,318	876,318	-	-
FUND BALANCE, JUNE 30	\$ 785,310	\$ 829,459	\$ 886,314	\$ 44,149	\$ 56,855

OTHER SUPPLEMENTAL INFORMATION

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Federal Sources:			
Adult education	\$ 37,000	\$ 37,000	\$ -
Title I	119,140	129,344	10,204
Title V	8,273	8,273	-
Vocational education/Title II	54,224	56,344	2,120
Other grants received through MARESA	78,016	77,365	(651)
Total Federal Sources	296,653	308,326	11,673
State Sources:			
State school aid - unrestricted	7,445,000	7,463,235	18,235
Restricted:			
Durant	29,873	29,873	-
Drivers education	-	-	-
At Risk	146,468	145,467	(1,001)
Special education	71,000	71,830	830
Adult education	222,000	246,083	24,083
Vocational education	36,000	40,717	4,717
Golden Apple	26,588	2,175	(24,413)
Other state grants	363,144	383,201	20,057
Total State Sources	8,340,073	8,382,581	42,508
Local Sources:			
Property tax levy	1,180,000	1,120,440	(59,560)
Commercial forest	30,000	26,883	(3,117)
Income from investments	16,000	29,744	13,744
Other local revenue	51,808	58,826	7,018
Total Local Sources	1,277,808	1,235,893	(41,915)
Other Governmental Units:			
Transfers from other governmental units	153,000	160,986	7,986
Total Other Governmental Units	153,000	160,986	7,986
TOTAL REVENUES	10,067,534	10,087,786	20,252
EXPENDITURES:			
Instruction:			
Elementary:			
Salaries	1,357,000	1,347,745	9,255
Fringe benefits	802,000	764,391	37,609
Supplies and materials	65,588	38,420	27,168
Other	250	337	(87)
Total Elementary	2,224,838	2,150,893	73,945
Middle School:			
Salaries	623,000	593,902	29,098
Fringe benefits	303,300	304,481	(1,181)
Supplies and materials	34,000	26,623	7,377
Total Middle School	960,300	925,006	35,294

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
High School:			
Salaries	\$ 939,000	\$ 928,338	\$ 10,662
Fringe benefits	427,000	425,264	1,736
Purchased services	6,000	4,072	1,928
Supplies and materials	44,450	52,807	(8,357)
Other	50,200	54,934	(4,734)
Total High School	1,466,650	1,465,415	1,235
Drivers Education:			
Salaries	13,000	11,677	1,323
Fringe benefits	2,929	1,923	1,006
Other	2,500	2,597	(97)
Total Drivers Education	18,429	16,197	2,232
Special Education:			
Salaries	737,226	723,694	13,532
Fringe benefits	363,792	362,440	1,352
Purchased services	1,000	1,254	(254)
Supplies and materials	9,540	10,466	(926)
Other	37,200	39,555	(2,355)
Total Special Education	1,148,758	1,137,409	11,349
Title I:			
Salaries	126,633	119,503	7,130
Fringe benefits	33,801	35,111	(1,310)
Purchased services	17,202	13,937	3,265
Supplies and materials	9,228	7,541	1,687
Total Title I	186,864	176,092	10,772
Vocational Education:			
Salaries	174,600	182,281	(7,681)
Fringe benefits	81,700	82,551	(851)
Purchased services	2,500	2,143	357
Supplies and materials	45,500	49,262	(3,762)
Total Vocational Education	304,300	316,237	(11,937)
TOTAL INSTRUCTION	6,310,139	6,187,249	122,890
Supporting Services:			
At Risk:			
Salaries	-	-	-
Fringe benefits	-	-	-
Total At Risk	-	-	-

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Counselor:			
Salaries	\$ 132,000	\$ 145,876	\$ (13,876)
Fringe benefits	70,000	69,440	560
Purchased services	25,000	26,526	(1,526)
Supplies and materials	1,000	644	356
Total Counselor	228,000	242,486	(14,486)
Nurse:			
Salaries	16,200	18,844	(2,644)
Fringe benefits	4,340	4,858	(518)
Purchased services	1,600	1,250	350
Other	2,000	2,230	(230)
Total Nurse	24,140	27,182	(3,042)
Social Worker:			
Salaries	60,195	60,194	1
Fringe benefits	27,955	27,266	689
Total Social Worker	88,150	87,460	690
Library:			
Salaries	72,696	73,409	(713)
Fringe benefits	29,142	30,232	(1,090)
Supplies and materials	11,250	7,882	3,368
Total Library	113,088	111,523	1,565
Tech Director:			
Salaries	95,438	95,437	1
Fringe benefits	53,000	52,502	498
Purchased services	1,000	2,421	(1,421)
Supplies and materials	52,000	14,135	37,865
Total Tech Director	201,438	164,495	36,943
Special Services:			
Salaries	22,629	23,629	(1,000)
Fringe benefits	11,097	8,392	2,705
Total Special Services	33,726	32,021	1,705
Board of Education:			
Salaries	7,600	4,034	3,566
Purchased services	26,000	15,567	10,433
Supplies and materials	4,000	4,584	(584)
Total Board of Education	37,600	24,185	13,415

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Superintendent:			
Salaries	\$ 171,882	\$ 168,622	\$ 3,260
Fringe benefits	76,800	75,101	1,699
Purchased services	5,800	9,264	(3,464)
Supplies and materials	13,000	14,305	(1,305)
Other	3,700	4,101	(401)
Total Superintendent	271,182	271,393	(211)
Principal			
Salaries	322,513	323,631	(1,118)
Fringe benefits	140,400	142,381	(1,981)
Purchased services	-	351	(351)
Supplies and materials	17,000	20,323	(3,323)
Total Principal	479,913	486,686	(6,773)
Business Manager:			
Salaries	-	-	-
Fringe benefits	4,330	4,558	(228)
Purchased services	66,748	65,828	920
Other	10,005	7,634	2,371
Total Business Manager	81,083	78,020	3,063
Operations & Maintenance:			
Salaries	311,000	312,392	(1,392)
Fringe benefits	165,500	170,147	(4,647)
Purchased services	414,300	403,614	10,686
Supplies and materials	58,000	56,449	1,551
Other	1,500	2,535	(1,035)
Total Operations & Maintenance	950,300	945,137	5,163
Noon Duty:			
Salaries	17,200	16,393	807
Fringe benefits	3,551	3,679	(128)
Total Noon Duty	20,751	20,072	679
Transportation:			
Salaries	315,460	325,310	(9,850)
Fringe benefits	139,200	139,274	(74)
Purchased services	13,950	17,307	(3,357)
Supplies and materials	89,000	95,290	(6,290)
Other	17,000	17,708	(708)
Total Transportation	574,610	594,889	(20,279)

**NICE Community School District
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Other Supporting Services:			
Other	\$ 20,700	\$ 19,258	\$ 1,442
Total Other Supporting Services	20,700	19,258	1,442
TOTAL SUPPORTING SERVICES	3,124,681	3,104,807	19,874
Debt Service:			
Principal	-	59,496	(59,496)
Interest and fees	1,835,000	45,390	1,789,610
Total Debt Service	1,835,000	104,886	1,730,114
Capital Outlay	179,313	138,132	41,181
TOTAL EXPENDITURES	11,449,133	9,535,074	1,914,059
EXCESS REVENUES (EXPENDITURES)	(1,381,599)	552,712	1,934,311
Other Financing Sources (Uses):			
Proceeds from borrowing	1,800,000	-	(1,800,000)
Insurance recoveries	9,740	9,740	-
Transfers in	-	-	-
Transfers out to local districts	(335,000)	(410,874)	(75,874)
Transfers out	(140,000)	(141,582)	(1,582)
TOTAL OTHER FINANCING SOURCES (USES)	1,334,740	(542,716)	(1,877,456)
NET CHANGE IN FUND BALANCE	(46,859)	9,996	56,855
Fund Balance, July 1	876,318	876,318	-
FUND BALANCE, JUNE 30	\$ 829,459	\$ 886,314	\$ 56,855

**NICE Community School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2005**

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
ASSETS:				
Cash and equivalents	\$ 32,939	\$ 196,503	\$ 272,209	\$ 501,651
Investments	40,442	160,454	-	200,896
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Inventories	-	-	-	-
Due from other funds	6,162	-	-	6,162
Due from other governmental units	-	-	-	-
TOTAL ASSETS	<u>\$ 79,543</u>	<u>\$ 356,957</u>	<u>\$ 272,209</u>	<u>\$ 708,709</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Cash fund overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	835	-	99,408	100,243
Accrued liabilities	-	-	-	-
Due to other governmental units	-	-	-	-
Due to other funds	6,852	-	-	6,852
State aid notes payable	-	-	-	-
Other liabilities	-	-	-	-
TOTAL LIABILITIES	<u>7,687</u>	<u>-</u>	<u>99,408</u>	<u>107,095</u>
FUND BALANCES:				
Reserved for:				
Debt service	-	356,957	-	356,957
Scholarships and endowments	47,073	-	-	47,073
Capital projects	-	-	172,801	172,801
Unreserved	24,783	-	-	24,783
TOTAL FUND BALANCES	<u>71,856</u>	<u>356,957</u>	<u>172,801</u>	<u>601,614</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 79,543</u>	<u>\$ 356,957</u>	<u>\$ 272,209</u>	<u>\$ 708,709</u>

**NICE Community School District
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005**

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
REVENUES:				
Property taxes	\$ -	\$ 833,444	\$ 368,560	\$ 1,202,004
Other local sources	230,732	31,099	8,625	270,456
Intermediate sources	-	-	-	-
State sources	15,312	-	-	15,312
Federal sources	127,145	-	-	127,145
Other	5,104	-	-	5,104
TOTAL REVENUES	378,293	864,543	377,185	1,620,021
EXPENDITURES:				
Instruction	-	-	-	-
Supporting services	516,520	-	-	516,520
Community services	1,200	-	-	1,200
Debt service:				
Principal	-	560,000	27,372	587,372
Interest	-	287,581	7,026	294,607
Capital outlay	-	-	169,612	169,612
Other	-	-	374	374
TOTAL EXPENDITURES	517,720	847,581	204,384	1,569,685
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(139,427)	16,962	172,801	50,336
OTHER FINANCING SOURCES (USES):				
Proceeds from borrowing	-	-	-	-
Transfers from other funds	141,582	-	-	141,582
Transfers to local districts	-	-	-	-
Transfers to other funds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	141,582	-	-	141,582
NET CHANGE IN FUND BALANCE	2,155	16,962	172,801	191,918
Fund Balance, July 1	69,701	339,995	-	409,696
FUND BALANCE, JUNE 30	\$ 71,856	\$ 356,957	\$ 172,801	\$ 601,614

**NICE Community School District
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2005**

	Hot Lunch Fund	Athletics Fund	Scholarships Fund	Total
ASSETS:				
Cash and equivalents	\$ 25,286	\$ 1,022	\$ 6,631	\$ 32,939
Investments	-	-	40,442	40,442
Accounts receivable	-	-	-	-
Inventory - food and supplies	-	-	-	-
Due from other funds	-	6,162	-	6,162
Due from other governmental units	-	-	-	-
TOTAL ASSETS	<u>\$ 25,286</u>	<u>\$ 7,184</u>	<u>\$ 47,073</u>	<u>\$ 79,543</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Cash fund overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	835	-	835
Accrued liabilities	-	-	-	-
Due to other governmental units	-	-	-	-
Due to other funds	503	6,349	-	6,852
State aid notes payable	-	-	-	-
Other liabilities	-	-	-	-
TOTAL LIABILITIES	<u>503</u>	<u>7,184</u>	<u>-</u>	<u>7,687</u>
FUND BALANCES:				
Reserved:				
Debt service	-	-	-	-
Scholarships and endowments	-	-	47,073	47,073
Unreserved	24,783	-	-	24,783
TOTAL FUND BALANCE	<u>24,783</u>	<u>-</u>	<u>47,073</u>	<u>71,856</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 25,286</u>	<u>\$ 7,184</u>	<u>\$ 47,073</u>	<u>\$ 79,543</u>

NICE Community School District
Nonmajor Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005

	Hot Lunch Fund	Athletics Fund	Scholarships Fund	Total
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other local sources	148,812	77,646	4,274	230,732
Intermediate sources	-	-	-	-
State sources	15,312	-	-	15,312
Federal sources	127,145	-	-	127,145
Other	-	5,104	-	5,104
TOTAL REVENUES	291,269	82,750	4,274	378,293
EXPENDITURES:				
Instruction	-	-	-	-
Supporting services	292,188	224,332	-	516,520
Community services	-	-	1,200	1,200
Capital outlay	-	-	-	-
Other	-	-	-	-
TOTAL EXPENDITURES	292,188	224,332	1,200	517,720
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(919)	(141,582)	3,074	(139,427)
OTHER FINANCING SOURCES (USES):				
Proceeds from borrowing	-	-	-	-
Transfers from other funds	-	141,582	-	141,582
Transfers to local districts	-	-	-	-
Transfers to other funds	-	-	-	-
TOTAL EXPENDITURES	-	141,582	-	141,582
NET CHANGE IN FUND BALANCE	(919)	-	3,074	2,155
Fund Balance, July 1	25,702	-	43,999	69,701
FUND BALANCE, JUNE 30	\$ 24,783	\$ -	\$ 47,073	\$ 71,856

**NICE Community School District
Hot Lunch Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Federal aid:			
Entitlement payments	\$ 103,000	\$ 112,356	\$ 9,356
Donated commodities	-	14,789	14,789
State aid:			
Entitlement payments	14,000	15,312	1,312
Student lunches	66,000	65,528	(472)
Adult lunches	480	289	(191)
Ala carte sales	80,800	82,639	1,839
Interest earned	200	356	156
Miscellaneous	-	-	-
TOTAL REVENUES	<u>264,480</u>	<u>291,269</u>	<u>26,789</u>
EXPENDITURES:			
Salaries	97,000	91,419	5,581
Fringe benefits	43,000	42,987	13
Supplies and materials	-	-	-
Other costs and expenses	11,050	12,091	(1,041)
Food and milk	113,430	130,902	(17,472)
Donated commodities	-	14,789	(14,789)
Capital outlay	-	-	-
Other	-	-	-
TOTAL EXPENDITURES	<u>264,480</u>	<u>292,188</u>	<u>(27,708)</u>
EXCESS REVENUES (EXPENDITURES)	-	(919)	(919)
OTHER FINANCING SOURCES:			
Transfer from other funds	-	-	-
Transfer to other funds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	(919)	(919)
Fund Balance, July 1	<u>25,702</u>	<u>25,702</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 25,702</u></u>	<u><u>\$ 24,783</u></u>	<u><u>\$ (919)</u></u>

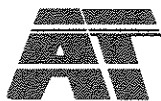
**NICE Community School District
Athletics Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Ticket sales	\$ 42,535	\$ 31,643	\$ (10,892)
Family passes	12,528	11,392	(1,136)
Tourney receipts	10,000	1,718	(8,282)
Pay to play fees	32,000	32,893	893
Miscellaneous	2,000	5,104	3,104
TOTAL REVENUES	99,063	82,750	(16,313)
EXPENDITURES:			
Salaries	137,313	136,341	972
Fringe benefits	29,198	32,544	(3,346)
Purchased services	16,262	15,871	391
Supplies and materials	-	35	(35)
District tourney	1,000	1,640	(640)
Capital outlay	-	9,685	(9,685)
Other	31,290	28,216	3,074
TOTAL EXPENDITURES	215,063	224,332	(9,269)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(116,000)	(141,582)	(25,582)
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	116,000	141,582	25,582
Transfer to other funds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	116,000	141,582	25,582
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	\$ -	\$ -	\$ -

**NICE Community School District
Sinking Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Property taxes	\$ 366,000	\$ 368,560	\$ 2,560
Interest income	3,000	1,551	(1,449)
Other local sources	-	7,074	7,074
TOTAL REVENUES	<u>369,000</u>	<u>377,185</u>	<u>8,185</u>
EXPENDITURES:			
Debt Service:			
Principal	-	27,372	(27,372)
Interest	-	7,026	(7,026)
Capital outlay	125,000	169,612	(44,612)
Other	400	374	26
TOTAL EXPENDITURES	<u>125,400</u>	<u>204,384</u>	<u>(78,984)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>243,600</u>	<u>172,801</u>	<u>(70,799)</u>
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	-	-	-
Transfer to other funds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>243,600</u>	<u>172,801</u>	<u>(70,799)</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 243,600</u>	<u>\$ 172,801</u>	<u>\$ (70,799)</u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
NICE Community School District
Ishpeming, Michigan 49841

We have audited the financial statements of the governmental activities of each major fund and the remaining aggregate fund information of NICE Community School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NICE Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate report to management letter dated September 14, 2005.

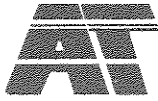
Internal Control Over Financial Reporting

In planning and performing our audit, we considered NICE Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of NICE Community School District, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 14, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

September 14, 2005

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

We have audited the basic financial statements of NICE Community School District for the year ended June 30, 2005, and have issued our report thereon dated September 14, 2005.

Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the School District. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our auditing procedures and not to provide any assurance concerning the adequacy of such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies adopted by the School District are described in Footnote A. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the

Board of Education
NICE Community School District
Ishpeming, Michigan 49849

possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the School District that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are not material to the current financial statements. We made no such adjustments during the course of our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a second opinion on certain situations.

If a consultation involves application of an accounting principal to the School District or a determination of the type of auditors' opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us so as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Board of Education and management of the School District and should not be used for any other purpose.

Anderson, Tackman & Company, PLC
Certified Public Accountants